

Galleria 2425 Owner, LLC

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\$51.675MM 5 Year Term Loan secured by Mortgage

ORIGINATING UNIT: NBK-NY

8 March 2018

Galleria 2425 Owner, LLC

I - Executive Summary

Request

1. Request approval of this new \$51.675MM Mortgage Term Loan, with a tenor of 5 years.

Existing/Proposed Exposure

Facility	Existing Limits	Proposed
New Mortgage Loan to Galleria 2425 Owner, LLC	USD 0 MM	USD 51.675 MM
TOTAL :	USD 0 MM	USD 51.675MM

Industry	External Rating	Relationship Since	Total Equity	Total Revenues	Net Profit
Real Estate Investment	N/A	New	N/A	\$5.7MM	\$4.9MM NOI

Galleria 2425 Owner, LLC

II - Purpose of Submission

- NBK-NY is seeking approval for a \$51.675MM, senior secured, 5 year term loan.
- The Loan will be used to purchase the Property, an 11-story 283,156 sf office building located in the Galleria submarket of Houston TX.
- The Property is a multi-tenant building which is **currently 91.5% leased**.
- The Loan has a **53.7% LTV** based on the Property's \$96.9MM "As-Is" market value.
- This opportunity was presented to NBK-NY after NBK-Geneva recommended that one of the Sponsors, Naissance Capital, contact NBK-NY about providing the senior debt in the deal.
- **NBK-Geneva, on behalf of some of its Private Banking clients, will be providing funding for ~16% of the capital structure.**
- Jetall, the other Sponsor, acquired this Property in 2013 as a value-add investment reflecting the Property's worn condition and low occupancy rate.
- In **2016 Jetall invested \$20MM to upgrade and remodel the Property** and then entered into a number of new leases to bring the current occupancy to 91.5%.
- Jetall is now monetizing its investment to redeploy the capital and is doing so via a joint venture arrangement with Naissance Capital. The joint venture will own the SPV set up to buy and hold the Property.
- The Primary tenant (67%) is Specialty Retailers Inc., a wholly owned subsidiary of Stage Stores Inc., an unrated publicly traded firm with over 835 small department stores in 38 states that in 2016 generated sales of \$1.4Bn. The next biggest tenant is Jetall at 9.28%.
- The Stage lease has over 10 years remaining and Jetall's has over 8 years remaining.
- Thus, the **average lease life for the entire Property is ~9 years**.

Galleria 2425 Owner, LLC

II - Summary Terms & Conditions

Borrower: Galleria 2425 Owner, LLC

Sponsors: Naissance Capital and Jetall

Facility: Senior Secured Mortgage financing of the purchase of the Property

Amount: \$51,675,000

Property: 283,156 SF Office Building in Houston, Texas

Maturity: 5 years from closing (~April 2023)

Amortization: None

Interest Rate: LIBOR plus 180 basis points

Up Front Fee: 50 bps

LTV: The Senior Loan to Value will be 53.7% at closing, based on the recently appraised value of \$96.9MM.

Covenants:

- 1) Senior Loan to Appraised Value shall not exceed 60%
- 2) Debt Service Coverage Ratio (Net Operating Income / annual debt service) shall be not less than 1.2x, tested annually.

Key Tenant Covenant: A default under the key tenant lease will trigger a restriction on distributions

Galleria 2425 Owner, LLC

II - Summary Terms & Conditions

Security:

- (a) A first priority, perfected recorded mortgage in the Property (the "Mortgage").
- (b) First priority collateral assignment of all leases, subleases, rents, licenses, concession agreements, and similar contracts and property income.
- (c) First priority, perfected lien and security interest in all fixtures, furnishings and equipment and other personal property owned by Borrower and used in connection with the Property.
- (d) First priority collateral assignment of all management agreements and other agreements affecting the Property, etc.

Loan Guarantor: None

Other Guarantees: Full Environmental and Bad Boy guarantees to be provided by a 3rd party acceptable to NBK.

Events of Default; Other

Terms & Conditions: To be in line with market practice and customary for this type of transaction.

Documentation: To be prepared by NBK's external counsel.

Reporting Policy Exceptions:

1. We have received three years of historical financial statements from the Borrower but they are not Audited statements.
2. Going forward, as a single purpose Real Estate LLC, Borrower will continue to provide financial statements but will not be producing Audited Annual financial statements.
3. There is no financial Loan Guarantee

We are comfortable with these exceptions based on: our analysis focuses on the Property's cash flow which is derived from fixed price leases; fixed rents provide steady predictable cash flows; the requirement going forward that the Borrower will provide financial statements of review quality and acceptable to us; the loan is fully secured by the Property; the Property will be annually appraised by independent third parties and such appraisals will include a review of revenues and expenses of the Property.

Galleria 2425 Owner, LLC

II - Summary Terms & Conditions

Key Credit Risks and Mitigants:

Key Tenant Risk: 67% of this property is leased to a tenant with a weakening credit profile. Specialty Retailers is a guaranteed subsidiary of Stage Stores Inc., a large publicly listed (unrated) retailer. Stage Stores operates a large group of retail department / clothing stores across the US. The retail industry is challenging right now and like many others in the industry, the Company is experiencing declining same store sales and is losing money.

Mitigant:

- This space is the company's corporate headquarters and there is a long term lease in place.
- Even in a bankruptcy/reorganization scenario, the courts would allow the company to continue to pay critical leases to continue operating and so the headquarters lease payments could continue to be made.
- A more likely scenario is that tenant would seek to downsize its space to reduce costs and the Sponsor is prepared to work with the tenant on that.
- In fact, part of the strategy of the Sponsor to improve the overall tenant profile by decreasing the reliance on this one tenant and also improve the profitability of the building by re-leasing some of this space at higher rates.
- The Sponsor is well along in finalizing lease negotiations with a local Houston bank to take a substantial 52,000 sf of the property, half of this space would be provided by Specialty Retailers vacating a floor and the new rent will be higher than that current rent.
- Furthermore, even if Specialty Retailers vacated its space and it had to be re-leased, in a worst case scenario, the space could be re-leased for a little as \$15sf (well below current market rates) and still provide sufficient cash flow to meet debt service.
- Although the Houston market has demonstrated some softening in general, with slightly rising vacancy rates, it generally remains sound and is expected to improve in 2018.
- More specifically the Galleria area commands top rents and will continue to benefit from the expansion of the new River Oaks Project.
- The Loan to Value on the building is good at 53.7%.

Galleria 2425 Owner, LLC

II - Summary Terms & Conditions

Key Credit Risks and Mitigants:

The Building is an older, Class "B" property.

Mitigant:

- The Property recently underwent a \$20MM renovation and was extensively upgraded with high end, Class A level amenities.
- The Property is well known due to its unique design by I.M. Pei and is well located, with high visibility.
- The Property is located in the upscale Galleria submarket of Houston, which commands top rents.

(Note: We visited the Property as part of our due diligence and were impressed by the Property, particularly the high quality of the renovations, its location and the favorable outlook for this Houston sub-market.)

Ownership structure with Mezzanine Debt at the Parent level that will need to be serviced with distributions from our Borrower.

Mitigant:

- NBK-NY's Senior Loan benefits from Mezzanine Debt being at the Parent level and not a direct obligation of our Borrower.
- The Cash Flow will be sufficient to service both obligations but our Senior Loan will always have the first priority.
- The loan structure will have constraints on distributions related to covenants / Defaults and also Key Tenant lease defaults.

Galleria 2425 Owner, LLC

II - Summary Terms & Conditions

Sources of Repayment (with strength of each source – strong, medium etc):

Primary: Cash flow from the Property; the building is well established and the leases in place provide operating income of \$5MM for a DSCR of 2.8X. Strong.

Secondary: Sale of the building; it is newly renovated and in a good location. Strong.

Deal Economics and Profitability:

Based on a loan of \$51.675MM and a margin of 180 bps and an upfront fee of 50 bps, the Bank will earn \$4.9MM over the 5 year life of the loan. ROC is 9.4% / RAROC 18.8% on an unsecured basis and ROC is 15.1% / RAROC is of 18.8% on secured basis.

This deal represents NBK-NY's first opportunity to work with Jetall and Naissance. Jetall has developed over 30 commercial properties and 250 luxury residential units in the Houston and Dallas markets, including over 1 million sq. ft. of commercial office space in the affluent Houston Galleria submarket.

Naissance has advised its clients on a number of large (\$50-\$150MM) commercial real estate transactions in the UK and the US. Both companies are considered strong potential sources for future deals.

Galleria 2425 Owner, LLC

III - Business Overview

Overview

- The Property known as One West Loop Plaza is an 11-story, 283,156 sf Office Building located on 2.45 acres at 2425 West Loop South, Houston, Texas.
- The Property was constructed in 1980 and is the design of world renowned architect I.M. Pei.
- The current owner, Houston-based Jetall Companies Inc., purchased the property in 2013 and then in 2016 invested \$20MM in a major renovation of the property and so although its age makes it Class B, it has been upgraded to a high end property offering Class A amenities.
- The property was bought as a value-add transaction.
- At the time, the building was majority leased to Blue Cross Blue Shield of Texas and the company's lease was expiring. The building had not been renovated since it was complete 1980 and was rundown, therefore, the plan was to not renew the Blue Cross lease, renovate the property and re-lease at higher rates.
- Jetall has been successful in executing this plan and the Property is currently at 91.5% occupancy.

Galleria 2425 Owner, LLC

III - Business Overview

Sources and Uses

- Jetall is now seeking to monetize this asset to invest in other projects; it is doing this via a sale of the building but Jetall will retain an ownership interest.
- Jetall and Naissance are forming a new Joint Venture to own the SPV which will purchase and hold the Property.
- The sale price of the Property is \$79.5MM (lower than Appraised value due to Jetall equity interest retention); the sources and uses of the transaction are as follows:

Source of Funds		%	Uses of Funds	
Senior Loan	\$ 51,675	63%	Purchase Price	\$ 79,500
Cash Equity	\$ 29,905	37%	Reserves & Costs	\$ 2,080
TOTAL	\$ 81,580			\$ 81,580

- The Equity for the purchase will be provided by the Joint Venture, which will get funding from the two equity partners as well as from \$16.975MM of Mezzanine Debt being indirectly provided by NBK-Geneva on behalf of Private Banking clients of NBK.
- This is a loan to the parent JV of the Borrower and not to the Borrower and therefore, the Mezzanine Debt will have no lien or claim on the Property.
- The Loan to Cost above is 63% but the Loan to Value is 53%, based on the appraised value of the Property: the difference being the actual equity value of the owners vs the cash equity of the transaction.

Loan to Value:		%		
Senior Loan	\$ 51,675	53%	Appraised Property Value	\$ 96,900
Equity Value	\$ 45,225	47%		\$ -
TOTAL	\$ 96,900			\$ 96,900

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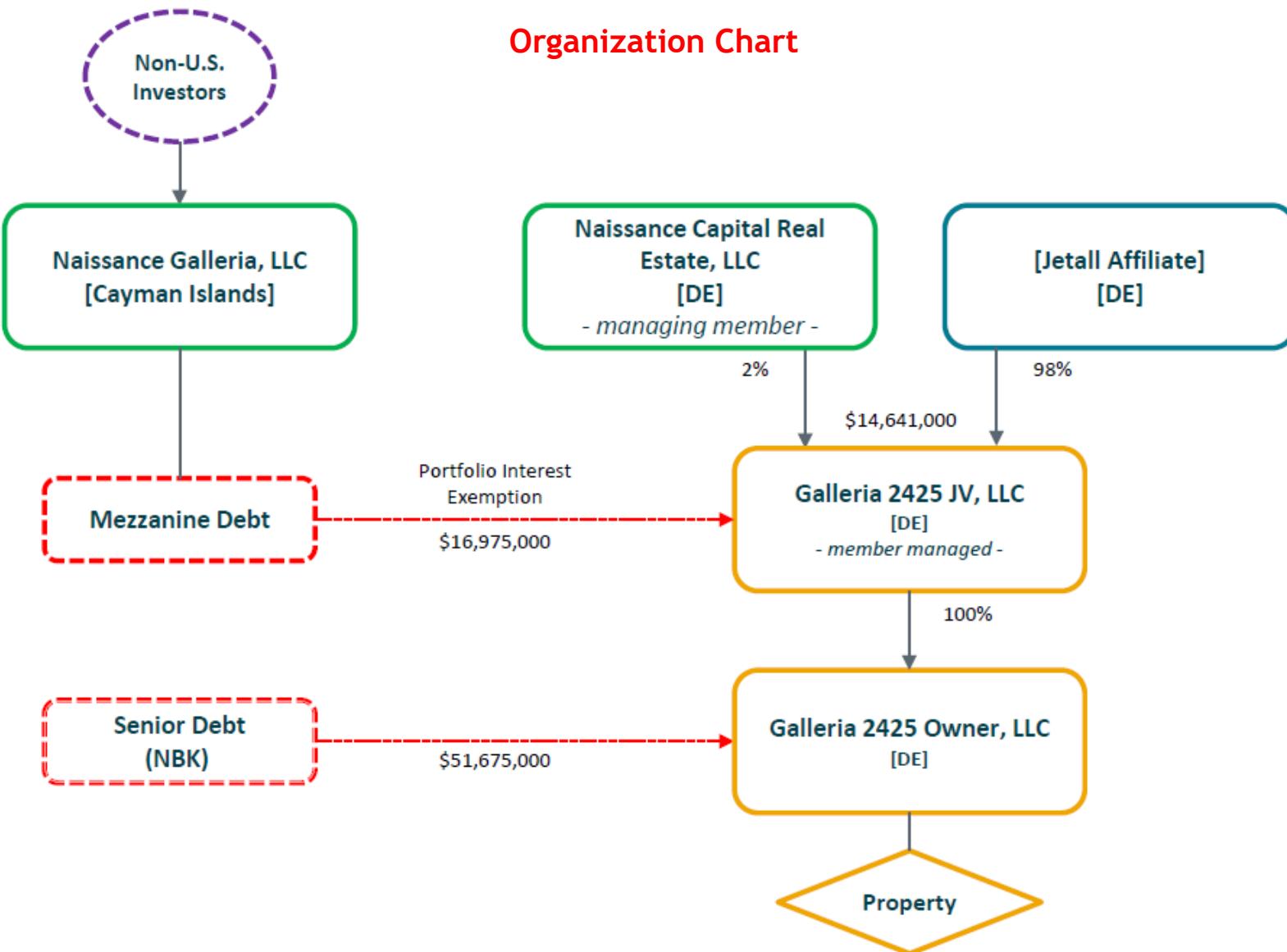
III - Business Overview

Ownership

- The SPV Galleria 2425 Owner, LLC is being formed to own the Property. As outlined in the attached organization chart, this LLC will be owned by Galleria 2425 JV, LLC, a member managed joint venture between Naissance Capital Real Estate, LLC, which will be the managing member and have a 2% interest. An affiliate of Jetall will own the 98% balance of the JV but be a passive investor.
- The NKB-NY Senior Debt will be to the LLC and secured by the Property. NBK-Geneva will be providing \$16.975MM of Mezzanine Debt to the JV entity, and this loan will be secured by a pledge of the JV interests.
- Naissance Capital Ltd., a UK based firm with a US footprint and a management team with a 10+ year track record. (Naissance approached NBK-NY at the suggestion of NBK-Geneva).
- Jetall Capital is a private investment firm which invests in real estate in high-growth, high barrier-to-entry markets. Jetall Capital has made successful investments in office, retail and residential (both single and multi-family) opportunities, both as fee-simple and as a lender.
- Naissance is hiring Transwestern Property Management (TPM) for property management and leasing, TPM is a large well experienced company that manages properties all across the US, including many in the Houston and the broader Texas area.

Galleria 2425 Owner, LLC

III - Business Overview



Galleria 2425 Owner, LLC

III - Business Overview

Property Overview

- 2425 West Loop South is an 11-story office building located in the heart of the Galleria area of the city of Houston Tx.
- The average floor plan contains ~26,000 sf and its expansive windows provide panoramic views of Houston.
- The Property includes a 9-story parking garage to service the building; tenants are allocated a certain number of spaces and some tenants are provided reserved spaces. The garage also generates income from renting excess spaces to adjacent properties; a picture of the Property is on the next page, the garage is to the left.
- The renovation of the building upgraded it to Class A level of amenities, providing high end touches such as retina scanners for building and floor access and brand new, state-of-the-art elevators.
- There is a Concierge Service to help tenants, an on-site gourmet deli, a full on-site state of the art fitness center, free valet parking for visitors and a free luxury Jetvan shuttle for all tenants, which will provide door to door service to the airport, the local golf course or the many local restaurants.
- The property is well located in the upscale Galleria section of Houston and provides a good commute as it is right off of a highway which easily connects to several other highways.
- Being adjacent to a hotel, near the Galleria (the largest mall in Texas, with 3 million sf), and down the street from the new 1.4 million sf luxury mixed use River Oaks project, the property offers tenants and visitors a wide array of shopping, dining, and lodging options.
- As mentioned earlier, the NBK-NY General Manager and Relationship Manager visited the Property in Feb 2018 were given a full tour of the property and the surrounding areas.
- They were also shown and provided with extensive details on the renovations.
- During their visit they also met with the CEO of the largest tenant, Specialty retailers/Stage as well as the current owner, Jetall.

Galleria 2425 Owner, LLC

III - Business Overview

Property Overview

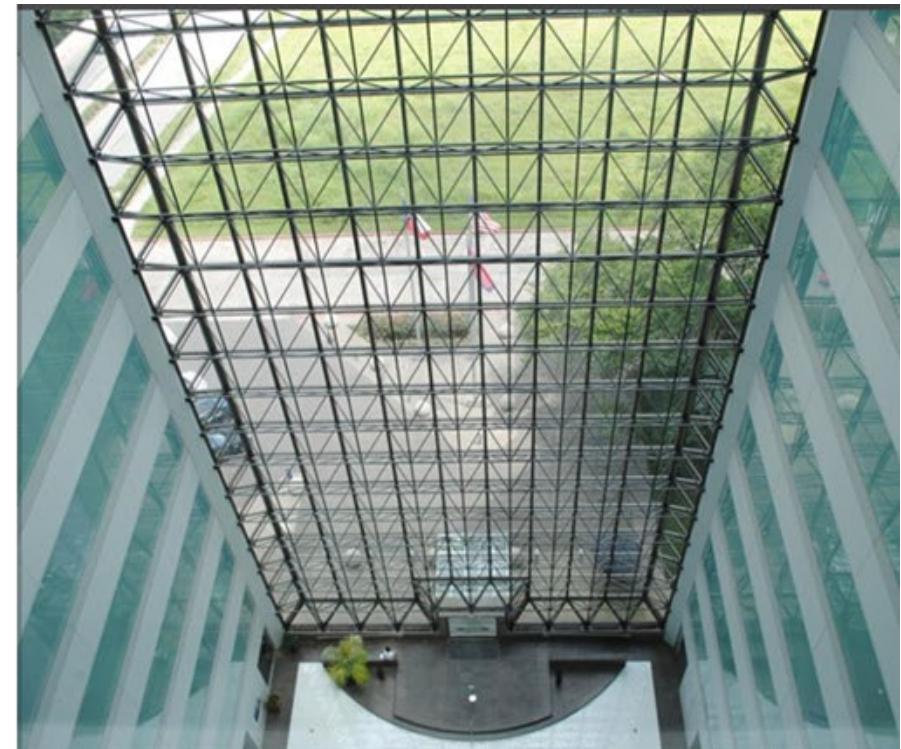


Galleria 2425 Owner, LLC

III - Business Overview

Property Overview

- The building features a beautiful 11-story atrium fronted by clear glass mounted on a space frame and a roof of reflective glass; a good example of the improvements made is that metal railings on each floor were removed and replaced with glass barriers to create a cleaner, more modern look.
- Additionally white marble was installed in the expansive lobby floor to capitalize on the bright sunlight entering the space by virtue of the atrium.



Galleria 2425 Owner, LLC

III - Business Overview

Tenants

- The building is 91.5% occupied by a group of diversified tenants. The Rent Roll as of Jan 2018 is below, these rents are the 2018 rates and so this the estimated 2018 base rent revenue:

Tenant	Sq Ft Leased	% of Sq Ft	Lease End Date	Rent Per Sq Ft	Annual Base Rent*	% of Base Rent
Specialty Retailers	189,192	66.8%	Jul-28	\$21.25	\$4,020,330	72%
Jetall	26,265	9.3%	Mar-26	\$25.00	\$656,625	12%
Regus	19,984	7.1%	Aug-19	\$13.50	\$269,784	5%
Sibs International	1,220	0.4%	Feb-20	\$27.03	\$32,977	1%
Vasso's Bar and Grill	2,860	1.0%	Jun-21	\$20.50	\$58,630	1%
PEM	2,754	1.0%	Nov-19	\$36.00	\$99,144	2%
Dr Velasco	5,130	1.8%	Dec-25	\$37.00	\$189,810	3%
G3 Visas & Passports	1,245	0.4%	Jan-23	\$21.00	\$26,145	0%
Wallis Bank	3,054	1.1%	Dec-21	\$38.75	\$118,343	2%
Prime Lending	4,323	1.5%	Apr-22	\$25.50	\$110,237	2%
Fitness Center	2,987	1.1%	Jan-26	0	\$0	0%
Currently Leased	259,014	91.5%			\$5,582,024	100.0%
Ruggles Black**	4,545	1.6%	Dec-24	\$35.00	\$159,075	
Other Vacant	19,597	6.9%				
Total Building Size	283,156	100%			\$5,741,099	
*Actual reported rent will be off slightly by timing differences of rate changes.						
**New lease with terms verbally agreed to but still to be finalized.						

Galleria 2425 Owner, LLC

III - Business Overview

Tenants

- Most of the leases are on a triple net basis although a few are on a gross basis and this is reflected in the different rates show above.
- The **largest tenant by far is Specialty Retailers, which accounts for ~67% of annual rent revenue.** The second largest tenant is Jetall, the current sole owner of the property that is creating the JV with Naissance Capital.
- **Together, these two tenants account for ~77% of the total current leased space and both have very long term leases.**
- Jetall's lease runs through 2026; Jetall will remain in the space as contracted by the lease but they are willing to re-locate to another of its buildings if the Property can re-lease this space at higher rents. This would improve the cash flow and value of the building, which benefits Jetall as an equity owner.
- The next largest tenant, Regus, leases 7% of the building and has an unusually low rent; it was put in place many years ago as this is the oldest tenant, having been in the building since 1995. This lease has the nearest maturity and the plan will be to seek a large increase in this rent to current market prices; either from the current tenant or from a new tenant.
- Therefore, while the Property's income is currently more than ample to service the debt, there is upside to improve profitability:
- **The Sponsor is in the last stages of finalizing a lease with Ruggles Black (a restaurant) for space on the first floor, this would improve occupancy to 93% and improve profitability with the \$35sf gross rent rate.**

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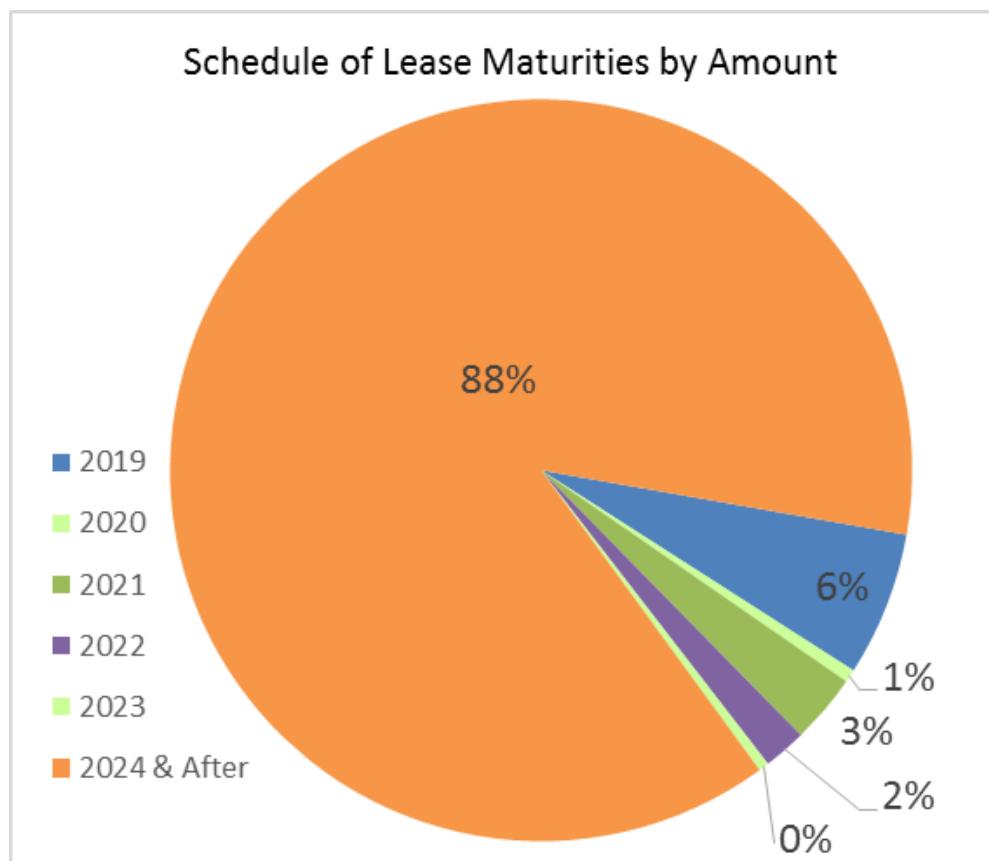
III - Business Overview

Tenants

- The Sponsor is also well along in lease negotiations with a local bank to take a substantial 52,000 sf.
- This would be two entire floors of the building; Specialty Retailers has agreed to vacate one floor and Jetall would move entirely so that there will be two adjacent floors for this bank to move into.
- The proposed rent will be higher than either of the current rates so occupancy would remain unchanged but profitability would improve.

Lease Maturity Profile:

- The balance of the tenants are well diversified by company type and by lease maturity dates.
- This chart illustrates that a full 88% of total revenue is derived from leases which mature AFTER the April 2023 loan maturity date, however, the majority of that is the key tenant, Specialty Retailers.



Galleria 2425 Owner, LLC

III - Business Overview

Tenants: Key Tenant

- Specialty Retailers Inc. is a wholly owned subsidiary of Stage Stores, Inc., a NYSE listed (symbol: SSI) corporation; Stage Stores guarantees the lease obligations of Specialty Retailers.
- This tenant occupies the top 7 floors of the building and also a small space on the first floor. The company moved to this location Jan 2016, consolidating several other locations into this one new Corporate Headquarters.
- The current rent is \$21.25 sf and escalates 2.5% a year, to \$26.25 in the last year of the lease in 2028. The tenant got six months rent abatement but spread out to be month 1, month 13, month 25 (ie: Jan 2018 so it will pay just 11 months rent in 2018) but then the remaining three months are not until the last three months of the lease in 2028.
- The lease is on a NNN basis and the tenant will pay its proportional share of expenses and taxes.
- The lease has a Contraction Option which allows the tenant to reduce its occupancy by two full floors, this option only available for the period of 2020-2023 and only with no less than one year's notice; the lease also has a one-time early termination option - for the last three years of the lease (2026-2028) and only with no less than one year's notice.
- As the key tenant in the building the company gets several perks such as a dedicated elevator to its top floors and reserved parking spots for executives.
- Stage Stores is a retailer of apparel, accessories, cosmetics, footwear and home goods, with 835 moderately priced department stores located mainly in small and mid-sized towns throughout 38 US states. The Company does have stores in Houston as well but it has benefitted from its broader business model of being one of the few stores in smaller towns, this has insulated it from competition to a degree but the Company now does face the same competitive pressures from e-commerce that other brick & mortar stores are facing.

Galleria 2425 Owner, LLC

III - Business Overview

Key Tenant

- The Company was formed in 1988 with the merger of retail chains which had been in business since the 1920's.
- It has grown substantially since then, mostly by acquisition of other chains so that it now holds many different store names.
- The Company did file for Chapter 11 bankruptcy in 2000 but did successfully reorganize the business and it was a steadily performing company for many years thereafter, with gross margins of ~27% and producing net profits.
- However, the Company has been facing challenging industry conditions in recent years and has experienced declining same store sales.
- In 2016 the Company closed 37 stores and still experienced an 8.8% same store sales decline. The profit margin fell to 20.7% and the Company posted a \$58MM operating loss for the first time.
- The Company took steps to cut costs and reposition certain stores but was also impacted by Hurricane Harvey in Sept 2017, which disrupted sales in the Houston area and damaged several stores.

Stage Stores Inc. FYE Jan 31 (\$000's)	FYE2017	FYE2016	FYE2015	FYE2014
Total Revenue	\$ 1,592,275	\$ 1,444,433	\$ 1,604,433	\$ 1,638,569
Operating Income	\$ (42,711)	\$ (55,012)	\$ 8,572	\$ 63,702
Net Income	\$ (37,323)	\$ (37,897)	\$ 3,780	\$ 30,850
Gross Margin	22.8%	20.7%	24.7%	27.5%
Total Stores	835	798	834	854
<i>Balance Sheet</i>				
Total Assets	\$ 806,406	\$ 786,989	\$ 848,099	\$ 824,677
Debt Obligations	\$ 180,350	\$ 170,163	\$ 165,723	\$ 47,388
Total Equity	\$ 344,114	\$ 380,160	\$ 429,753	\$ 475,930

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III - Business Overview

Key Tenant

- For FYE2017 the store count rose even though the Company closed 21 stores as it acquired 58 Gordmans stores during 2017; this contributed to the higher YOY sales even though for the full year same store sales declined 3.6%. Although sales were higher and the gross margin improved slightly for the full year, there was still a \$42.7MM Operating Loss for the year.
- Stage Stores did take heart from an improved trend as the fourth quarter ended Jan 31 2018 (4Q17) was improved and this is the key period for retailers: in 4Q17, sales rose from \$454MM to \$549MM and there was **\$20MM of Operating Income vs a \$7MM Operating Loss in 4Q16**.
- There was a \$5.6MM Net Profit vs \$6.8MM Net Loss and **importantly, same store sales grew 1.1%**.
- Thus, the Company's efforts to improve its operations, with better inventory turn refreshing store merchandise, more effective promotions and enhancements to its online business, did favorably impact results.
- However, leverage did continue to rise and guidance for next year still reflects an Operating Loss and Net Loss.
- The announced results today had only a minor impact on the stock price and it remains very low at \$1.98. The 52 week high was \$3.00 on 27-Apr-17 and the low was \$1.45 on 16-Aug-17. While the stock did improve over the last month, it was only very slightly; the longer term picture reflects the stock dropping significantly over the past three years:

The Market Cap of \$54MM is well below the FYE17 \$344MM book value.



Galleria 2425 Owner, LLC

III - Business Overview

Location

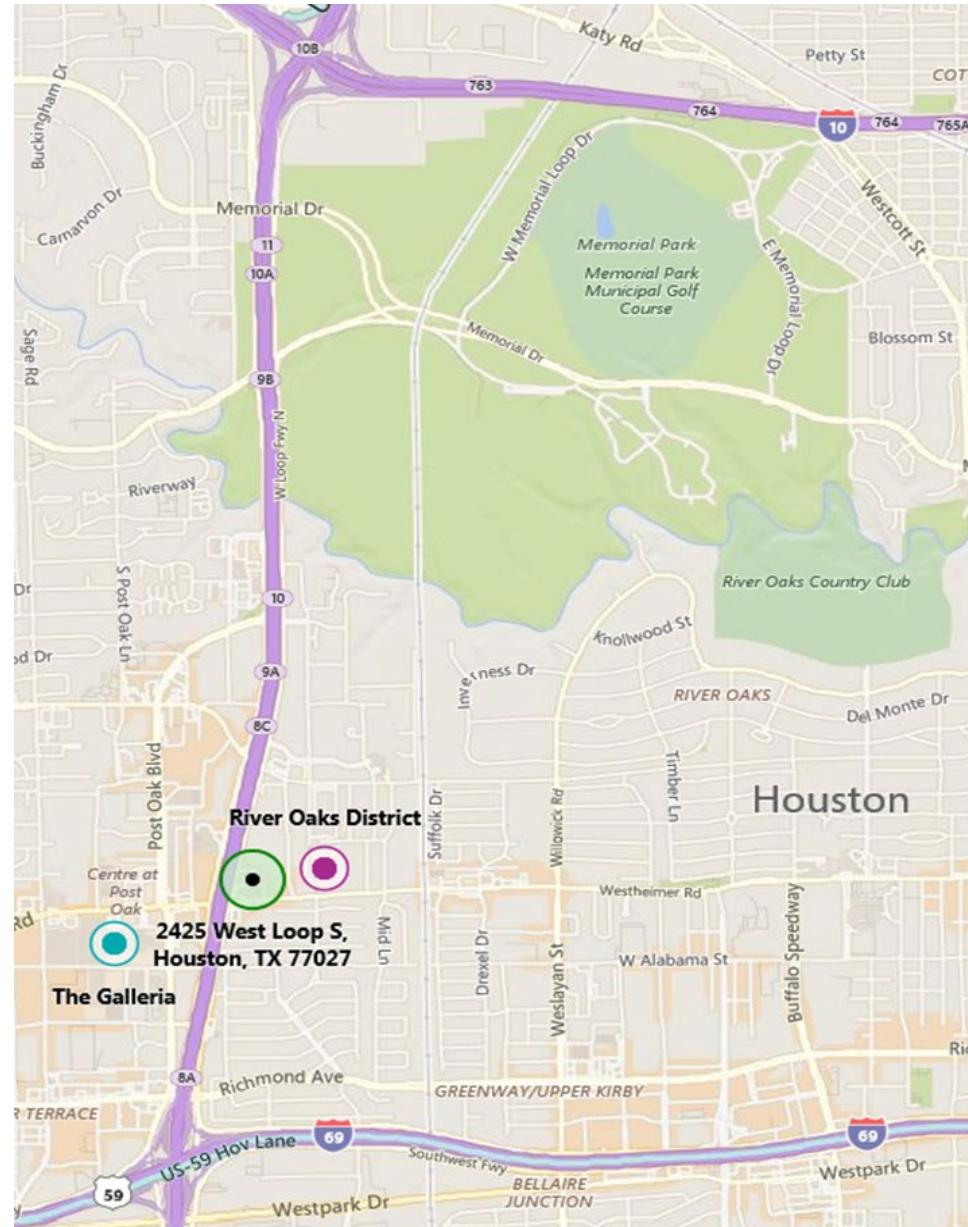
- The Property is in the suburbs of Houston, Tx. With a population of 2.3 million people, Houston is the most populous city in Texas, and the fourth most populous city in the United States; with ~6.7 million people, the broader Houston / The Woodlands / Sugar Land metropolitan area is the fifth-most populated in the United States.
- The Property is located in the “Galleria” subset of Houston; so named for the Galleria Mall, a Simon owned, upscale mixed-use shopping mall which consists of a retail complex, two Westin hotels, and three office towers.
- The Property is very close to this mall, which, with 3 million sf space is the largest mall in Texas.
- It has many amenities to offer visitors and beyond shopping in the over 375 stores, it has 50 restaurants and food stores, a jogging track on the roof, a private health club and a 20,000sf ice skating rink.
- The Property is also across from the River Oaks District, a new 1.4 million sf mixed-use development which is still being built out in phases.
- The first phase has been completed and this outdoor shopping complex offers global luxury brand retail, restaurants, sidewalk cafes, and a movie theatre. There is also 92,000 sf of office space and two 5-story residential buildings.

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Location

- A new hotel is being constructed as part of the Phase two expansion of this project, it will be adjacent to the Property parking garage and a lease has been executed to rent 150 of the Parking Garage spaces to this hotel, bringing an additional source of income.
- There are many other shopping and dining options for tenants and the Property is also close to a large golf course and a country club.
- Another key draw for tenants is an excellent commute. The Property is not just adjacent to the US 290 highway, it is right at an entrance ramp for a quick exit for employees; this highway connects to two other major Houston highways.



Galleria 2425 Owner, LLC

III - Business Overview

Location

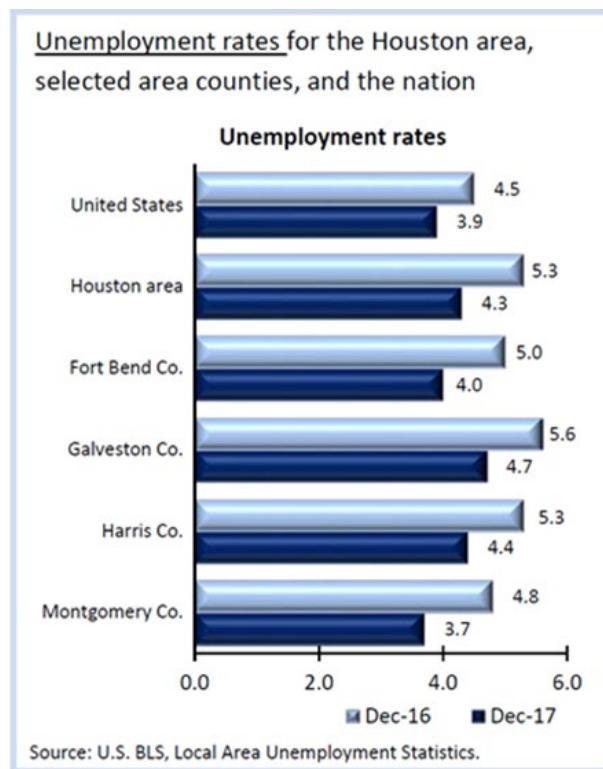
- Houston Area Economy:
- Houston is the 4th most populous city in the U.S. and 42.6% of its 2.2 million residents are 25-54 years old.
- The city had experienced strong growth from its Oil & Gas industry but has also diversified its economy to have a broad base in other sectors such as manufacturing, aeronautics and transportation.
- It has the Port of Houston, which ranks first in the United States in international waterborne tonnage handled and second in total cargo tonnage handled.
- Houston is also a leader in the health care sector. Only New York City has more Fortune 500 company headquarters than Houston.
- The drop in energy prices at the end of 2014 and the resulting decline in Oil & Gas activities did impact the Houston economy, although primarily so that its growth slowed as opposed to creating a downturn.
- GDP growth slowed from the very strong 6% in 2013 and had a 1% decline in 2016 but rose in 2017 and is expected to be reported as ~1.3% for the full year.

Galleria 2425 Owner, LLC

III - Business Overview

Location

- Houston Area Economy:
- Additionally, Houston did see its unemployment rate rise and after almost a decade of being lower than the national average, Houston's unemployment rose to 5.3% in 2016, higher than the US 4.5% average.
- However, unemployment has again decreased and was a low 4.3% in 2017.
- The Houston metro area created 46,000 jobs in 2017, only a little less than the average 50,000 to 60,000 new jobs per year; thus, 2017 ended with total employment of 3,082,000, a new peak for the region.



- Moody's expects the Houston economy to improve in 2018, with GDP rising to 4% and unemployment dropping to 4.1%.

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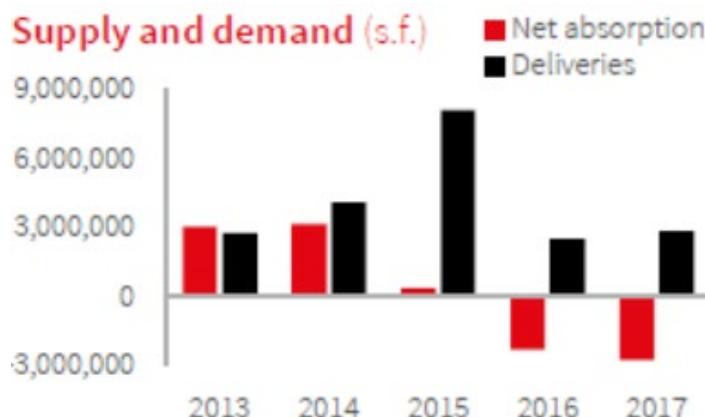
III - Business Overview

Location

Market Overview

- The Houston market has been strong for many years but it was impacted by the downturn in oil prices at the end of 2014.
- The strong market had driven expansion and so new deliveries were high in 2015 but absorption was quite low.
- Thus, vacancy rose and net absorption has been negative in 9 of the last 12 quarters as over 13.0 million sf of new construction had been delivered:

Total vacancy



- Leasing activity slowed and sublease activity account for almost a high ~25% of all leasing activity in 2017.
- However, the slowdown in activity has resulted in a slowdown in new construction and so with less new deliveries, the market should return to a better balance in 2018.

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- The JLL Houston Office statistics in Attachment #1 does highlight that a good portion of the recent completions were in the Galleria area, 980,000 sf of completions in 2017 resulted in a negative 607,226 absorption, which is second only to the downtown area. There is additional supply under construction as well, although only 104,579 sf. This has raised the vacancy rate to 21.2% but this is still slightly lower than the 23.2% for the overall Houston area. However, breaking this down to Class A and Class B, most of the inventory and new supply is Class A properties, which command average rents of \$37.62sf (gross rent); this is among the highest in the suburban regions, second only to Katy Freeway West.
- However, as illustrated on the following chart, the **Class B inventory is lower and vacancy is also lower at just 15.4%**.
- This Property is somewhat of a hybrid in that it has been renovated to a Class A level but it is still technically Class B, for its age if nothing else.
- With the excellent location and Class A level of amenities, it competes well against the Class B competition and commands top rates.
- However, **it can also compete well against Class A properties, providing the Class A amenities in a unique building for a compelling rate.**
- For example the latest lease just executed for the Property is for **\$35sf, well above the \$26.89sf average lease price for the other Class B properties in the Galleria area**, which is among the highest rates in Houston.
- **This \$35sf is closer to the average \$37.62sf rent for Class A buildings in the Galleria submarket.**

Galleria 2425 Owner, LLC

III - Business Overview

Location

Houston | Office Statistics | Q4 2017

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,548,672	-13,621	-235,184	-3.1%	18.4%	19.4%	\$29.53	0	0
CBD	B	7,548,672	-13,621	-235,184	-3.1%	18.4%	19.4%	\$29.53	0	0
Midtown	B	2,267,869	2,607	-7,956	-0.4%	8.6%	9.9%	\$29.24	0	0
Greenway Plaza	B	2,571,195	8,012	-79,626	-3.1%	13.3%	13.6%	\$27.71	0	0
Greenspoint/North Belt	B	4,273,778	-20,048	-141,824	-3.3%	43.4%	44.2%	\$15.79	0	0
Northwest	B	4,667,122	-126,174	-62,089	-1.3%	19.0%	20.8%	\$20.42	0	0
San Felipe/Voss	B	3,430,031	-45,539	-114,350	-3.3%	15.9%	16.4%	\$24.13	0	0
Southwest	B	4,447,569	-119,018	-108,743	-2.4%	24.6%	24.6%	\$17.73	0	0
Galleria	B	4,949,479	-50,769	-110,602	-2.2%	15.1%	15.4%	\$26.89	0	0
Bellaire	B	1,187,047	14,982	20,910	1.8%	9.8%	10.1%	\$25.06	0	0
Medical Center	B	2,198,482	-2,958	26,436	1.2%	5.5%	5.5%	\$27.61	0	0
Suburban Near	B	29,992,572	-338,905	-577,844	-1.9%	19.7%	20.3%	\$20.76	0	0
Katy Freeway East	B	1,436,025	14,743	-3,230	-0.2%	11.2%	12.5%	\$21.83	0	0
Katy Freeway West	B	5,402,052	11,472	-226,323	-4.2%	25.4%	25.8%	\$22.37	0	0
Westchase	B	4,220,036	-27,452	-65,367	-1.5%	18.2%	19.0%	\$19.86	0	0
Energy Corridor	B	11,058,113	-1,237	-294,920	-2.7%	20.8%	21.5%	\$21.45	0	0
FM 1960	B	3,592,268	-28,596	-71,498	-2.0%	22.9%	23.0%	\$16.73	0	0
Sugar Land	B	1,308,292	-1,909	42,803	3.3%	10.4%	13.3%	\$21.75	0	0
Gulf Freeway/Pasadena	B	1,516,973	-5,307	-23,235	-1.5%	17.9%	17.9%	\$21.73	82,800	0
NASA/Clear Lake	B	1,924,289	-45,250	-82,213	-4.3%	25.7%	25.7%	\$18.88	0	0
The Woodlands	B	2,079,062	-6,624	-15,687	-0.8%	15.8%	16.8%	\$26.76	0	0
Suburban Outlying	B	10,420,884	-87,686	-149,830	-1.4%	19.7%	20.3%	\$19.88	82,800	0
Houston	B	59,020,241	-441,449	-1,257,778	-2.1%	19.7%	20.4%	\$21.81	82,800	0

Galleria 2425 Owner, LLC

III - Business Overview

Location

Comparative Properties:

- Per the recent appraisal, the comparable properties in the area are listed below; note that these average rents are below those being commanded by the Galleria 2425 West Loop Property:

SUMMARY OF RENT COMPARABLES						
No.	Name/Location	Year Built	Type	Building Size SF	Rent \$/SF	Exp. Basis
1	515 Post Oak Blvd - Houston, TX	1980	POB	274,242	\$20.00	NNN
2	1616 S Voss Road - Houston, TX	1980	POB	179,061	\$19.00	NNN
3	10500 Richmond Avenue- Houston, TX	1979	POB	96,733	\$20.67	NNN
4	2100 West Loop South - Houston, TX	1973	POB	162,336	\$19.50	NNN
Minimum		1973	-	96,733	\$19.00	-
Maximum		1980	-	274,242	\$20.67	-
Average		1978	-	178,093	\$19.79	-
Subject		1979	-	283,156	\$20.80	-

Comparative Sales:

- The recent appraisal also provided a list of sales of comparable properties, the most recent sale is the highest price but also the newest building:

SUMMARY OF COMPARABLE SALES						
No.	Name / Location	Sale Date	Bldg. Size (SF)	% Occ.	Year Built	Sale Price \$/SF
1	5300 Memorial Dr - Houston, TX	Jan-16	153,626	83.2%	1983	\$38,686,634 \$251.82
2	2200 Post Oak Blvd - Houston, TX	Oct-17	326,200	83.0%	2013	\$172,000,000 \$527.28
3	7789 Southwest Freeway - Houston, TX	Jun-15	131,806	89.0%	2007	\$31,644,152 \$240.08
Minimum		Jun-15	131,806	83.0%	1983	\$31,644,152 \$240.08
Maximum		Oct-17	326,200	89.0%	2013	\$172,000,000 \$527.28
Average		Jun-16	203,877	85.1%	2001	\$80,776,929 \$339.73
Subject		-	283,156	100.0%	1979	- -

Galleria 2425 Owner, LLC

III - Business Overview

Location

Comparative Sales:

- The appraisal analysis adjusted for differences in properties and arrived at an adjusted average sale price of \$354.51 sf and the appraisal concluded the Property had a value near the midpoint of the range of \$350.00 sf.
- This provides an indicated "As Is" Fair Market Value via the Sales Comparison method calculated as follows:

SALES COMPARISON APPROACH CONCLUSION "AS IS"			
Building Size SF	\$ Per Building SF	Value	
283,156	x	\$350.00	= \$99,104,600
Fair Market Value (Rounded)		\$99,100,000	

- This provides an excellent secondary repayment source as the value is slightly higher than the \$96.6MM Income Capitalization method, providing a slightly lower LTV of 52%.

Galleria 2425 Owner, LLC

IV - Key Business Considerations and Risks

Key Business Considerations/Risks:

- Strategic Threats: Low. Houston continues to be a growing area with solid employment opportunities.
- Growth potential: Single purpose borrower. But this new relationship with the Sponsors could bring additional real estate opportunities in the United States.
- Competition: Moderate. While there are other office buildings in the area and the Houston market has weakened in the past several years, it is beginning to rebound and with little new supply, the market will tighten.
-
- Barriers to entry: Moderate; it is a densely populated area and much new development is housing and retail space.
- Regulatory framework: Moderately complex; properties are subject to a variety of local, state and federal regulations and laws, including ordinances and building codes.
- Cyclical: Moderate. The Commercial Real Estate industry typically follows the general economic cycle, which affects employment growth, property values and property yields.

Galleria 2425 Owner, LLC

V - Financial Risks

Financial Highlights

Property Profitability / Projections:

- The Property generates very good Operating Income. The three year historical financials reflect a renovation / leasing up stage and income has grown each year.
- The 2017 results were good with \$7.5MM of net Revenue and \$5MM of Net Operating income, this would have covered an estimated \$1.83MM of new loan interest 2.7X.
- In 2018, one new lease is assumed to be effective and rents all step up a bit as well so the base rent will rise and the projected net Revenue including expense recoveries (which are not 100% as some small leases are on a gross basis) and less concessions will be ~\$7.94MM.

Property Projections:

- The Company prepared projections based on the current leases in place and assumed the Ruggles Black lease is in place later as well.
- Thus, with 93.1% of the building leased, the property is projected to generate \$5.2MM of Operating Income in 2018, this would provide ~2.84X DSCR based on a full year's interest.
- Revenue growth is 4.9% in 2019 but then fairly muted through 2023, when our loan would mature; however, the Borrower financials are based on flat expenses YOY and so NOI does grow to \$6.5MM in 2023.
- This would provide DSCR of 2.84X - 3.56X 2018 to 2023, based on flat interest rates.
- *Additional Information:*
- Since the parent level Mezzanine Debt will rely on distributions from our Borrower for Interest Payments, for illustration purposes only, we reflect the estimated Net Cash Flow available for Distributions and the estimated DSCR that this would provide the Mezzanine Debt.

Galleria 2425 Owner, LLC

- This is not a realistic case as although rents are contracted, it does not reflect a growth in expenses.
- Therefore, NBK NY did a Base Case to adjust for expense growth.

	Borrower Projections							Loan Matures April 2023
	Actual	Projected	Projected	Projected	Projected	Projected	Projected	
Fiscal Year Ended Dec 31:	2017	2018	2019	2020	2021	2022	2023	
Base Rental Revenue	\$5,718.3	\$5,707.0	\$5,987.0	\$6,096.0	\$6,251.0	\$6,388.0	\$6,388.0	
<i>Rise in Base Rent</i>		-0.2%	4.9%	1.8%	2.5%	2.2%	0.0%	
Operating Expenses Recoveries	\$2,169.4	\$2,447.0	\$2,536.0	\$2,579.0	\$2,585.0	\$2,616.0	\$2,616.0	
Other Revenue	\$250.7	\$25.0	\$300.0	\$300.0	\$300.0	\$300.0	\$300.0	
Less: Concessions	\$ (638.0)	\$ (235.0)	\$ (180.0)	\$ (3.0)	\$ (13.0)	\$ (9.0)	\$ (9.0)	
Effective Gross Revenue	\$7,500.4	\$7,944.0	\$8,643.0	\$8,972.0	\$9,123.0	\$9,295.0	\$9,295.0	
<i>Operating Expenses</i>								
Taxes and Insurance	\$1,025.8	\$1,030.0	\$1,030.0	\$1,030.0	\$1,030.0	\$1,030.0	\$1,030.0	
Utilities	\$460.9	\$490.0	\$490.0	\$490.0	\$490.0	\$490.0	\$490.0	
Other Services / Repairs / Maint.	\$923.0	\$1,045.0	\$1,045.0	\$1,045.0	\$1,045.0	\$1,045.0	\$1,045.0	
Asset Management	\$133.1	\$164.0	\$174.0	\$183.0	\$187.0	\$191.0	\$191.0	
Total Operating Expenses	\$2,542.7	\$2,729.0	\$2,739.0	\$2,748.0	\$2,752.0	\$2,756.0	\$2,756.0	
Net Operating Income	\$4,957.6	\$5,215.0	\$5,904.0	\$6,224.0	\$6,371.0	\$6,539.0	\$6,539.0	
NBK Assumed Interest Exp.		\$1,834.5	\$1,834.5	\$1,834.5	\$1,834.5	\$1,834.5	\$1,834.5	\$1,834.5
Debt Service Coverage		2.84	3.22	3.39	3.47	3.56	3.56	
Capital, Leasing, TI & Other	\$ 796.0	\$ 694.0	\$ 49.0	\$ 27.0	\$ 100.0	\$ 101.0		
Net Cash Flow for Distributions	\$ 2,584.5	\$ 3,375.5	\$ 4,340.5	\$ 4,509.5	\$ 4,604.5	\$ 4,603.5		
Estimated Parent Level Interest	\$ 1,442.9	\$ 1,457.4	\$ 1,472.0	\$ 1,486.8	\$ 1,501.7	\$ 1,516.8		
CF Coverage of Parent Debt	1.79	2.32	2.95	3.03	3.07	3.04		
Interest Expense Assumptions:								
Senior Loan Amount	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	
<i>Margin</i>	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	
<i>Libor</i>	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	
<i>All-in Rate</i>	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	
Interest Expense	\$ 1,834.5	\$ 1,834.5	\$ 1,834.5	\$ 1,834.5	\$ 1,834.5	\$ 1,834.5	\$ 1,834.5	
Parent Mezzanine Loan	\$ 16,975.0	\$ 17,145.4	\$ 17,317.5	\$ 17,491.3	\$ 17,666.8	\$ 17,844.2		
Parent Mezz Debt Interest @ 8.5%	\$ 1,442.9	\$ 1,457.4	\$ 1,472.0	\$ 1,486.8	\$ 1,501.7	\$ 1,516.8		

Galleria 2425 Owner, LLC

Galleria 2425 West Loop		NBK NY Branch Base Case					Loan Matures April 2023
	Actual	Projected	Projected	Projected	Projected	Projected	Projected
Fiscal Year Ended Dec 31:	2017	2018	2019	2020	2021	2022	2023
Base Rental Revenue	\$5,718.3	\$5,707.0	\$5,987.0	\$6,096.0	\$6,251.0	\$6,388.0	\$6,388.0
<i>Rise in Base Rent</i>		-0.2%	4.9%	1.8%	2.5%	2.2%	0.0%
Operating Expenses Recoveries	\$2,169.4	\$2,447.0	\$2,536.0	\$2,579.0	\$2,585.0	\$2,616.0	\$2,616.0
Other Revenue	\$250.7	\$25.0	\$300.0	\$300.0	\$300.0	\$300.0	\$300.0
Less: Concessions	\$ (638.0)	\$ (235.0)	\$ (180.0)	\$ (3.0)	\$ (13.0)	\$ (9.0)	\$ (9.0)
Effective Gross Revenue	\$7,500.4	\$7,944.0	\$8,643.0	\$8,972.0	\$9,123.0	\$9,295.0	\$9,295.0
<i>Operating Expenses</i>							
Taxes and Insurance	\$1,025.8	\$1,030.0	\$1,060.9	\$1,092.7	\$1,125.5	\$1,159.3	\$1,194.1
Utilities	\$460.9	\$490.0	\$504.7	\$519.8	\$535.4	\$551.5	\$568.0
Other Services / Repairs / Maint.	\$923.0	\$1,045.0	\$1,076.4	\$1,108.6	\$1,141.9	\$1,176.2	\$1,211.4
Asset Management	\$133.1	\$164.0	\$174.0	\$183.0	\$187.0	\$191.0	\$191.0
Total Operating Expenses	\$2,542.7	\$2,729.0	\$2,816.0	\$2,904.2	\$2,989.8	\$3,077.9	\$3,164.5
Net Operating Income	\$4,957.6	\$5,215.0	\$5,827.1	\$6,067.8	\$6,133.2	\$6,217.1	\$6,130.5
<i>Interest Expense</i>							
Interest Expense		\$1,834.5	\$2,092.8	\$2,351.2	\$2,480.4	\$2,609.6	\$2,738.8
Debt Service Coverage		2.84	2.78	2.58	2.47	2.38	2.24
<i>Capital, Leasing, TI & Other</i>							
Capital, Leasing, TI & Other	\$ 796.0	\$ 694.0	\$ 49.0	\$ 27.0	\$ 100.0	\$ 101.0	
Net Cash Flow for Distributions	\$ 2,584.5	\$ 3,040.3	\$ 3,667.6	\$ 3,625.8	\$ 3,507.5	\$ 3,290.7	
Estimated Parent Level Interest	\$ 1,442.9	\$ 1,457.4	\$ 1,472.0	\$ 1,486.8	\$ 1,501.7	\$ 1,516.8	
CF Coverage of Parent Debt		1.79	2.09	2.49	2.44	2.34	2.17
<i>Interest Expense Assumptions:</i>							
Senior Loan Amount	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675
Margin		1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
Lib or		1.75%	2.25%	2.75%	3.00%	3.25%	3.50%
All-in Rate		3.55%	4.05%	4.55%	4.80%	5.05%	5.30%
Interest Expense	\$ 1,834.5	\$ 2,092.8	\$ 2,351.2	\$ 2,480.4	\$ 2,609.6	\$ 2,738.8	
<i>Parent Mezzanine Loan</i>							
Parent Mezzanine Loan	\$ 16,975.0	\$ 17,145.4	\$ 17,317.5	\$ 17,491.3	\$ 17,666.8	\$ 17,844.2	
Parent Mezz Debt Interest @ 8.5%	\$ 1,442.9	\$ 1,457.4	\$ 1,472.0	\$ 1,486.8	\$ 1,501.7	\$ 1,516.8	

Galleria 2425 Owner, LLC

V - Financial Risks

Financial Highlights

NYB Base Case:

- This Base Case is realistic as it has rising operating expenses and interest expense. Therefore, DSCR is lower and starts at 2.84x but decreases every year thereafter.
- However, **DSCR remains acceptable at over 2X every year** and there is sufficient cash flow to distribute to the Parent for the Mezzanine Debt service as well.

NYB Sensitized Case:

- This case assumes that Specialty Retailers vacates its entire space at the beginning of 2020.
- This space stays vacant for half the year and is then leased but only for \$20sf, a lower rate than currently being commanded-as a way to quickly lease the space.
- In this scenario, 2018 and 2019 are in line with the Base case but in 2020, the Base Rent drops 36% YOY, reflecting the 6 months vacancy.
- With the vacant space, expense recoveries also drop by half in 2020 and concessions would rise and thus, total revenue drops 44% in 2020.
- 2021 revenue rises due to the full year of the re-leased space and rates rise 3% thereafter but we assume a higher level of tenant turnover would require a higher level of concessions annually than the Base Case.
- Utilities and other services decrease in 2020 due to the vacant space but rebound to the Base Case levels thereafter.
- Interest rate assumptions are the same as the Base Case.

Galleria 2425 Owner, LLC

Galleria 2425 West Loop		NBK NY Branch Sensitized Case						Loan Matures April 2023
		Actual	Projected	Projected	Projected	Projected	Projected	
Fiscal Year Ended Dec 31:	2017	2018	2019	2020	2021	2022	2023	
Base Rental Revenue	\$5,718.3	\$5,707.0	\$5,987.0	\$3,843.3	\$5,690.2	\$5,860.9	\$6,036.7	
<i>Rise in Base Rent</i>		-0.2%	4.9%	-35.8%	48.1%	3.0%	3.0%	
Operating Expenses Recoveries	\$2,169.4	\$2,447.0	\$2,536.0	\$1,250.0	\$2,585.0	\$2,616.0	\$2,616.0	
Other Revenue	\$250.7	\$25.0	\$300.0	\$300.0	\$300.0	\$300.0	\$300.0	
Less: Concessions	\$ (638.0)	\$ (235.0)	\$ (180.0)	\$ (550.0)	\$ (200.0)	\$ (200.0)	\$ (200.0)	
Effective Gross Revenue	\$7,500.4	\$7,944.0	\$8,643.0	\$4,842.9	\$8,375.7	\$8,576.9	\$8,752.7	
<i>Operating Expenses</i>								
Taxes and Insurance	\$1,025.8	\$1,030.0	\$1,060.9	\$1,092.7	\$1,125.5	\$1,159.3	\$1,194.1	
Utilities	\$460.9	\$490.0	\$504.7	\$389.9	\$535.4	\$551.5	\$568.0	
Other Services / Repairs / Maint.	\$923.0	\$1,045.0	\$1,076.4	\$831.5	\$1,141.9	\$1,176.2	\$1,211.4	
Asset Management	\$133.1	\$164.0	\$174.0	\$183.0	\$187.0	\$191.0	\$191.0	
Total Operating Expenses	\$2,542.7	\$2,729.0	\$2,816.0	\$2,497.1	\$2,989.8	\$3,077.9	\$3,164.5	
Net Operating Income	\$4,957.6	\$5,215.0	\$5,827.1	\$2,345.8	\$5,385.8	\$5,499.0	\$5,588.2	
<i>Interest Expense</i>								
Debt Service Coverage		2.84	2.78	1.00	2.17	2.11	2.04	
<i>Capital, Leasing, TI & Other</i>								
Net Cash Flow for Distributions		\$ 2,584.5	\$ 3,040.3	\$ (1,505.4)	\$ 2,878.4	\$ 2,789.4	\$ 2,748.4	
Estimated Parent Level Interest		\$ 1,442.9	\$ 1,457.4	\$ 1,472.0	\$ 1,486.8	\$ 1,501.7	\$ 1,516.8	
CF Coverage of Parent Debt		1.79	2.09	(1.02)	1.94	1.86	1.81	
Interest Expense Assumptions:								
Senior Loan Amount		\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	
<i>Margin</i>		1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	
<i>Libor</i>		1.75%	2.25%	2.75%	3.00%	3.25%	3.50%	
<i>All-in Rate</i>		3.55%	4.05%	4.55%	4.80%	5.05%	5.30%	
Interest Expense		\$ 1,834.5	\$ 2,092.8	\$ 2,351.2	\$ 2,480.4	\$ 2,609.6	\$ 2,738.8	
<i>Parent Mezzanine Loan</i>		\$ 16,975.0	\$ 17,145.4	\$ 17,317.5	\$ 17,491.3	\$ 17,666.8	\$ 17,844.2	
<i>Parent Mezz Debt Interest @ 8.5%</i>		\$ 1,442.9	\$ 1,457.4	\$ 1,472.0	\$ 1,486.8	\$ 1,501.7	\$ 1,516.8	

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Galleria 2425 Owner, LLC

V - Financial Risks

Financial Highlights

NBK Sensitized Case:

- Under this scenario DSCR declines after 2018 and 2019 but is still 1.0X in 2020 and over 2X the subsequent years. Thus, the Borrower would be in covenant breach but still be able to service the Debt.
- We do note that in this scenario leasing expenses & other related costs in 2020 would need to be funded and there would be no distributions for Mezzanine Debt service that year, however, this does not impact the senior debt.

NBK \$15 Case:

- For illustration purposes, we have prepared a case reflecting that even if the Specialty Retailer space is re-leased in 2020 for just a low \$15sf, the Property can service its debt.
- Total revenue drops in 2020 due to the drop in the rent but all other items are held flat.
- Under this scenario, in 2020, even with the drop in rent, the Debt service is still almost 2X. With the rise in expenses and interest expense, the DSCR declines YOY but is still above the covenant minimum.

Summary:

- We note that the focus of our sensitivity is the credit risk profile of the largest tenant, however, the Sponsor is seeking to diversify the tenants to decrease this risk and indeed is well along in talks with a new tenant which would reduce Specialty Retailers space by ~26,000.
- Even if this is not finalized, we have demonstrated that this space can be leased at lower rates and still meet debt service.

Galleria 2425 Owner, LLC

Galleria 2425 West Loop		NBK NY Branch SR Re-Lease @ \$15 SF Case						Loan Matures April 2023
		Actual	Projected	Projected	Projected	Projected	Projected	Projected
Fiscal Year Ended Dec 31:		2017	2018	2019	2020	2021	2022	2023
Base Rental Revenue		\$5,718.3	\$5,707.0	\$5,987.0	\$4,789.2	\$4,789.2	\$4,789.2	\$4,789.2
<i>Rise in Base Rent</i>			-0.2%	4.9%	-20.0%	0.0%	0.0%	0.0%
Operating Expenses Recoveries		\$2,169.4	\$2,447.0	\$2,536.0	\$2,579.0	\$2,585.0	\$2,616.0	\$2,616.0
Other Revenue		\$250.7	\$25.0	\$300.0	\$300.0	\$300.0	\$300.0	\$300.0
Less: Concessions		\$ (638.0)	\$ (235.0)	\$ (180.0)	\$ (200.0)	\$ (200.0)	\$ (200.0)	\$ (200.0)
Effective Gross Revenue		\$7,500.4	\$7,944.0	\$8,643.0	\$7,468.0	\$7,474.2	\$7,505.2	\$7,505.2
<i>Operating Expenses</i>								
Taxes and Insurance		\$1,025.8	\$1,030.0	\$1,060.9	\$1,092.7	\$1,125.5	\$1,159.3	\$1,194.1
Utilities		\$460.9	\$490.0	\$504.7	\$519.8	\$535.4	\$551.5	\$568.0
Other Services / Repairs / Maint.		\$923.0	\$1,045.0	\$1,076.4	\$1,108.6	\$1,141.9	\$1,176.2	\$1,211.4
Asset Management		\$133.1	\$164.0	\$174.0	\$183.0	\$187.0	\$191.0	\$191.0
Total Operating Expenses		\$2,542.7	\$2,729.0	\$2,816.0	\$2,904.2	\$2,989.8	\$3,077.9	\$3,164.5
Net Operating Income		\$4,957.6	\$5,215.0	\$5,827.1	\$4,563.8	\$4,484.4	\$4,427.3	\$4,340.7
<i>Interest Expense</i>			\$1,834.5	\$2,092.8	\$2,351.2	\$2,480.4	\$2,609.6	\$2,738.8
Debt Service Coverage			2.84	2.78	1.94	1.81	1.70	1.58
Capital, Leasing, TI & Other		\$ 796.0	\$ 694.0	\$ 49.0	\$ 27.0	\$ 100.0	\$ 101.0	
Net Cash Flow for Distributions		\$ 2,584.5	\$ 3,040.3	\$ 2,163.6	\$ 1,977.0	\$ 1,717.7	\$ 1,500.9	
Estimated Parent Level Interest		\$ 1,442.9	\$ 1,457.4	\$ 1,472.0	\$ 1,486.8	\$ 1,501.7	\$ 1,516.8	
CF Coverage of Parent Debt		1.79	2.09	1.47	1.33	1.14	0.99	
Interest Expense Assumptions:								
Senior Loan Amount		\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675	\$ 51,675
Margin		1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
Lib or		1.75%	2.25%	2.75%	3.00%	3.25%	3.50%	
All-in Rate		3.55%	4.05%	4.55%	4.80%	5.05%	5.30%	
Interest Expense		\$ 1,834.5	\$ 2,092.8	\$ 2,351.2	\$ 2,480.4	\$ 2,609.6	\$ 2,738.8	
<i>Parent Mezzanine Loan</i>		\$ 16,975.0	\$ 17,145.4	\$ 17,317.5	\$ 17,491.3	\$ 17,666.8	\$ 17,844.2	
<i>Parent Mezz Debt Interest @ 8.5%</i>		\$ 1,442.9	\$ 1,457.4	\$ 1,472.0	\$ 1,486.8	\$ 1,501.7	\$ 1,516.8	

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Galleria 2425 Owner, LLC

VI - Recommendations

Strengths

- The Property is currently 91.5% occupied but the Property Owner is negotiating a new leases to bring that to 93%.
- The Property just underwent a substantial \$20MM renovation to bring it up to a Class A level property, with many very high end amenities.
- The current Property income is more than sufficient to cover debt service - at the current occupancy level, no upside assumptions are needed.
- The Loan to Value is a good 53.7%, based on the \$96.9MM "As Is" value.
- With a Sales Method valuation, the \$99.1MM valuation provides a strong 52% LTV.
- The Property has a long term lease maturity profile, with 88% of rent related to leases expiring after the loan maturity.
- The Property is well positioned in the upscale Galleria area of Houston, which is benefitting from the new River Oak District project which is still expanding.
- The greater Houston area is expected to experience growth in GDP and employment in 2018.

Galleria 2425 Owner, LLC

VI - Recommendations

Weaknesses

- There is key tenant risk as one tenant with a weakening credit profile currently leases 67% of the space, however, the owner is working to let the tenant consolidate and re-lease some of that space, with one new tenant lined up already; re-leasing risk is lower as cash flows are strong enough that the property can service debt even at a much lower than current rent rate if needed.
- There are several smaller tenants with leases maturing prior to the loan maturity, however, none of these amounts are significant and leasing interest in the Property has been strong; there are two new long term leases currently being finalized.
- There is no financial loan guarantee, however, there is a strong equity commitment via the 53% Loan to Value ratio and projected cash flows support the loan well with a good DSCR.
- No amortization.
- The Houston real estate market has been weakening as a result of the downturn in the Oil & Gas industry, however, there is less new supply going forward and this will improve absorption and vacancy rates; the vacancy rate for the Property's upscale Galleria submarket of 15.4% is good and lower than the broader Houston market.

Galleria 2425 Owner, LLC

VI - Recommendations

Conclusion

NBK-NY recommends approval of the proposed \$51.675MM 5 year loan, secured by a first priority lien on the Property, based on the following:

- The Property has just been renovated, with a \$20MM investment bringing it up to a Class A level property.
- The LTV at closing will be a strong 53.7%.
- The Property is currently 91.5% leased and this should shortly rise to 93% with the finalization of a lease in negotiation.
- There is key tenant risk due to the large 67% occupancy of Specialty Retailers but the Sponsor is working to reduce this and is in final negotiations for a large lease to take one of Specialty Retailers' floors.
- Although this new lease would not raise occupancy, the new higher rental rates would improve cash flows - but this is not needed for debt service, which is projected to be over 2X with existing leases.
- The Property is well located in the upscale Galleria submarket of Houston, which enjoys a lower than average vacancy rate.
- NBK-NY was recommended to the Sponsor by NBK-Geneva, which enjoys a good relationship with Naissance.
- Recommend a "C" rating.

Galleria 2425 Owner, LLC

VI - MICC Recommendations

- Recommendation

Galleria 2425 Owner, LLC

APPENDICES

- A. Appendix A - RAROC
- B. Appendix B - JLL Market Information

Galleria 2425 Owner, LLC

Transaction 1		Ref Name:	2425 W Loop	Transaction Status:	PROPOSED	Report Date:	08-Mar-18	Report Ccy:	USD
Obligor Profile					Facility Terms				
Obligor: 2425 W Loop Country: United States Region: North America Industry: Real Estate					Facility Type: Funded Facility Exposure Type: Corporate Additional Exposure Type: SL: Income Producing RE Slotting Internal Grading Rate: STRONG				
Obligor Ratings					Facility Size: 51,675,000 Exposure at Default (EAD): 51,675,000 Amortization: NO Transaction Currency: USD	Pricing			
Moody's: S&P: Fitch: Composite External Rating: Not Rated Internal Rating: 5 Internal Equivalent Mapped Rtg: Ba Anchor Rating PD: Ba					Facility Maturity: 1-Mar-23 Tenor (T in Years): 4.98 Avg. Maturity (If Amort):	Spread above Mkt Bench. (%) 1.800% Total Fees p.a.: 0.10% Matched Funding Liquidity Premium (%) 0.45% Override COF/Liq Premium: Operating Cost (% of Gross Revenue): Effective Marginal Tax Rate:			
Country Risk Profile					Security	Other Capital Parameters			
Sov Moody's LT FC: Aaa STABLE Sov S&P LT FC Issuer: AA+u STABLE Sov Fitch Issuer LT FC: AAA STABLE Sov Composite Rating: Aaa					Collateralization: Unsecured	Regulatory: Regulatory Haircut: N/A Net Eligible Collateral (USD): 0 Net Reg Exposure (USD): 51,675,000 Reg RWA (in USD): 51,675,000 Effective Reg Provision p.a. (Reg EL): 0.20%			
EIU Country Risk Scores :						Economic: 1-year Cumulative 5-year Prob. of Default (PD): N/A N/A Override PD: Unsec. Part Sec. Part Loss Given Default (LGD): N/A N/A Override LGD: Blended: N/A			
5Y CDS (bps): 30.3 Country Score: 4.5						PD Source: N/A - Using Basel Supervisory Slotting Methodology			
Risk>Returns Metrics					Returns on Capital				
RISK : Cost of Risk/Exp. Loss (%Nominal): 0.20% 0.40% Capital Charge (%Nominal): 17.00% 5.60% Consumed Capital (USD): 8,784,750 2,893,800 Equity Charge (USD): 7,532,799 14.58%						TRANSACTION 8.5% 9.4% 18.8% ROC (FTP) ROC RAROC			
RETURNS p.a. : Gross Income (NII + Fees) (USD): 826,800 1.60% Net Income (NI) (USD): 826,800 1.60% Liquidity/Tenor Adjusted NI (USD): 749,288 1.45% Risk-Adjusted Income (AI) (USD): 542,588 1.05%					EXISTING ONLY: N/A N/A N/A				
DIVERSIFICATION BENEFITS : Geographical Variance: 0.7112% 0.7090% Industry Variance: 0.9749% 0.9771% Score: 0.73					EFFECT OF PROPOSED SINGLE TRANSACTION on EXISTING : 8.5% 9.4% 18.8% ROC (FTP) ROC RAROC				

Galleria 2425 Owner, LLC



Attachment #2

Houston

Q4 2017

Office Statistics

	Class	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Houston Totals										
	A	108,581,173	-89,669	-1,500,682	-1.4%	20.2%	24.7%	\$35.30	2,736,644	1,978,465
	B	59,020,241	-441,449	-1,257,778	-2.1%	19.7%	20.4%	\$21.81	82,800	0
	Totals	167,601,414	-531,118	-2,758,460	-1.6%	20.0%	23.2%	\$30.55	2,819,444	1,978,465
CBD										
	Totals	35,561,535	-179,460	-1,170,841	-3.3%	17.4%	20.9%	\$41.60	1,056,658	778,344
	CBD	Totals	35,561,535	-179,460	-1,170,841	-3.3%	17.4%	20.9%	\$41.60	1,056,658
Midtown										
	Totals	4,120,911	120,104	35,983	0.9%	14.3%	15.5%	\$31.35	0	0
	Greenway Plaza	Totals	9,928,139	-60,456	-134,944	-1.4%	16.5%	16.9%	\$34.05	188,547
	Greenspoint/North Belt	Totals	8,920,132	-20,952	-321,625	-3.6%	51.0%	54.2%	\$20.79	0
	Northwest	Totals	8,551,128	-175,257	-87,677	-1.0%	23.4%	26.3%	\$23.89	0
	San Felipe/Voss	Totals	5,150,824	-34,810	-98,954	-1.9%	18.0%	18.3%	\$29.50	0
	Southwest	Totals	6,026,337	-198,338	-246,954	-4.1%	23.9%	24.2%	\$17.92	0
	Galleria	Totals	22,701,426	-136,881	-607,226	-2.7%	18.1%	21.2%	\$35.61	980,000
	Bellaire	Totals	2,278,583	-3,311	21,470	0.9%	10.7%	11.7%	\$24.65	0
	Medical Center	Totals	3,928,258	7,697	-29,471	-0.8%	9.0%	9.2%	\$29.70	0
	Suburban Near	Totals	71,605,738	-502,204	-1,469,398	-2.1%	22.1%	24.1%	\$27.28	1,168,547
	Katy Freeway East	Totals	5,547,268	-1,068	27,342	0.5%	14.5%	15.7%	\$34.21	238,173
	Katy Freeway West	Totals	19,700,169	-64,928	-443,164	-2.2%	23.4%	32.3%	\$30.93	86,255
	Westchase	Totals	13,012,970	155,976	48,876	0.4%	19.4%	24.2%	\$29.39	187,011
	Energy Corridor	Totals	38,260,407	89,980	-366,946	-1.0%	20.7%	27.1%	\$30.76	511,439
	FM 1960	Totals	5,876,912	-24,110	9,008	0.2%	18.3%	18.9%	\$18.16	0
	Sugar Land	Totals	4,232,491	54,984	101,505	2.4%	8.5%	10.2%	\$26.75	0
	Gulf Freeway/Pasadena	Totals	1,516,973	-5,307	-23,235	-1.5%	17.9%	17.9%	\$21.73	82,800
	NASA/Clear Lake	Totals	3,260,980	-44,996	-108,342	-3.3%	17.4%	18.0%	\$20.07	0
	The Woodlands	Totals	7,286,378	79,995	269,789	3.7%	18.4%	19.2%	\$30.79	0
	Suburban Outlying	Totals	22,173,734	60,566	248,725	1.1%	16.3%	17.1%	\$23.99	82,800
	Houston	Totals	167,601,414	-531,118	-2,758,460	-1.6%	20.0%	23.2%	\$30.55	2,819,444
	CBD	A	28,012,863	-165,839	-935,657	-3.3%	17.1%	21.3%	\$44.49	1,056,658
	CBD	A	28,012,863	-165,839	-935,657	-3.3%	17.1%	21.3%	\$44.49	1,056,658
Midtown										
	A	1,853,042	117,497	43,939	2.4%	21.3%	22.5%	\$32.42	0	0
	Greenway Plaza	A	7,356,944	-68,468	-55,318	-0.8%	17.6%	18.1%	\$36.09	188,547
	Greenspoint/North Belt	A	4,646,354	-904	-179,801	-3.9%	57.9%	63.4%	\$24.45	0
	Northwest	A	3,884,006	-49,083	-25,588	-0.7%	28.6%	32.8%	\$25.99	0
	San Felipe/Voss	A	1,720,793	10,729	15,396	0.9%	22.1%	22.1%	\$35.86	0
	Southwest	A	1,578,768	-79,320	-138,211	-8.8%	22.2%	22.8%	\$18.41	0
	Galleria	A	17,751,947	-86,112	-496,624	-2.8%	18.9%	22.8%	\$37.62	980,000
	Bellaire	A	1,091,536	-18,293	560	0.1%	11.7%	13.5%	\$24.31	0
	Medical Center	A	1,729,776	10,655	-55,907	-3.2%	13.3%	13.9%	\$33.23	0
	Suburban Near	A	41,613,166	-163,299	-891,554	-2.1%	23.9%	26.8%	\$31.08	1,168,547
	Katy Freeway East	A	4,111,243	-15,811	30,572	0.7%	15.6%	16.8%	\$37.88	238,173
	Katy Freeway West	A	14,298,117	-76,400	-216,841	-1.5%	22.6%	34.8%	\$35.57	86,255
	Westchase	A	8,792,934	183,428	114,243	1.3%	19.9%	26.7%	\$34.45	187,011
	Energy Corridor	A	27,202,294	91,217	-72,026	-0.3%	20.7%	29.4%	\$35.50	511,439
	FM 1960	A	2,284,644	4,486	80,506	3.5%	11.1%	12.4%	\$28.21	0
	Sugar Land	A	2,924,199	56,893	58,702	2.0%	7.7%	8.8%	\$31.24	0
	Gulf Freeway/Pasadena	A	0	0	0	0.0%	0.0%	0.0%	\$0.00	0
	NASA/Clear Lake	A	1,336,691	254	-26,129	-2.0%	5.6%	6.9%	\$24.15	0
	The Woodlands	A	5,207,316	86,619	285,476	5.5%	19.5%	20.1%	\$33.23	0
	Suburban Outlying	A	11,752,850	148,252	398,555	3.4%	13.3%	14.3%	\$31.37	0
	Houston	A	108,581,173	-89,669	-1,500,682	-1.4%	20.2%	24.7%	\$35.30	2,736,644

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Houston | Office Statistics | Q4 2017

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
CBD	B	7,548,672	-13,621	-235,184	-3.1%	18.4%	19.4%	\$29.53	0	0
CBD	B	7,548,672	-13,621	-235,184	-3.1%	18.4%	19.4%	\$29.53	0	0
Midtown	B	2,267,869	2,607	-7,956	-0.4%	8.6%	9.9%	\$29.24	0	0
Greenway Plaza	B	2,571,195	8,012	-79,626	-3.1%	13.3%	13.6%	\$27.71	0	0
Greenspoint/North Belt	B	4,273,778	-20,048	-141,824	-3.3%	43.4%	44.2%	\$15.79	0	0
Northwest	B	4,667,122	-126,174	-62,089	-1.3%	19.0%	20.8%	\$20.42	0	0
San Felipe/Voss	B	3,430,031	-45,539	-114,350	-3.3%	15.9%	16.4%	\$24.13	0	0
Southwest	B	4,447,569	-119,018	-108,743	-2.4%	24.6%	24.6%	\$17.73	0	0
Galleria	B	4,949,479	-50,769	-110,602	-2.2%	15.1%	15.4%	\$26.89	0	0
Bellaire	B	1,187,047	14,982	20,910	1.8%	9.8%	10.1%	\$25.06	0	0
Medical Center	B	2,198,482	-2,958	26,436	1.2%	5.5%	5.5%	\$27.61	0	0
Suburban Near	B	29,992,572	-338,905	-577,844	-1.9%	19.7%	20.3%	\$20.76	0	0
Katy Freeway East	B	1,436,025	14,743	-3,230	-0.2%	11.2%	12.5%	\$21.83	0	0
Katy Freeway West	B	5,402,052	11,472	-226,323	-4.2%	25.4%	25.8%	\$22.37	0	0
Westchase	B	4,220,036	-27,452	-65,367	-1.5%	18.2%	19.0%	\$19.86	0	0
Energy Corridor	B	11,058,113	-1,237	-294,920	-2.7%	20.8%	21.5%	\$21.45	0	0
FM 1960	B	3,592,268	-28,596	-71,498	-2.0%	22.9%	23.0%	\$16.73	0	0
Sugar Land	B	1,308,292	-1,909	42,803	3.3%	10.4%	13.3%	\$21.75	0	0
Gulf Freeway/Pasadena	B	1,516,973	-5,307	-23,235	-1.5%	17.9%	17.9%	\$21.73	82,800	0
NASA/Clear Lake	B	1,924,289	-45,250	-82,213	-4.3%	25.7%	25.7%	\$18.88	0	0
The Woodlands	B	2,079,062	-6,624	-15,687	-0.8%	15.8%	16.8%	\$26.76	0	0
Suburban Outlying	B	10,420,884	-87,686	-149,830	-1.4%	19.7%	20.3%	\$19.88	82,800	0
Houston	B	59,020,241	-441,449	-1,257,778	-2.1%	19.7%	20.4%	\$21.81	82,800	0